Coachman Insurance Company
Annual Report 2001

Coachman

Responsibility for Financial Statements

The financial statements are the responsibility of management and have been prepared in conformity with accounting principles generally accepted in Canada. In the opinion of management, the financial statements fairly reflect the financial position, results of operations and cash flows of Coachman Insurance Company (the Corporation) within reasonable limits of materiality.

Preparation of financial information is an integral part of management's broader responsibilities for the ongoing operations of the Corporation. Management maintains an extensive system of internal accounting controls to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements.

An actuary has been appointed by the Corporation to carry out a valuation of the policy liabilities and to issue a report thereon to the shareholders and regulatory authorities. The valuation is carried out in accordance with accepted actuarial practice and common Canadian insurance regulatory requirements. The policy liabilities consist of a provision for unpaid claim and adjustment expenses on the earned portion of policies and of future obligations on the unearned portion of policies. In performing this valuation, the actuary makes assumptions as to future rates of claim frequency and severity, inflation, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the Corporation and the nature of the insurance policies. The actuary also makes use of management information provided by the Corporation and the work of the external auditors in verifying the data used in the valuation.

The financial statements have been examined and approved by the Board of Directors. An Audit Committee, composed of members of the Board of Directors, meets periodically with financial officers of the Corporation and the external auditors. These external auditors have free access to this Committee, without management present, to discuss the results of their audit work and their opinion on the adequacy of internal financial controls and the quality of financial reporting.

KPMG have been appointed external auditors. Their responsibility is to report to the shareholders and regulatory authorities regarding the fairness of presentation of the Corporation's financial position and results of operations as shown in the financial statements. In carrying out their audit, the external auditors also make use of the work of the actuary and his report on the policy liabilities. The Auditors' Report outlines the scope of their examination and their opinion.

S J Sharkey

Sam Sharkey
President

Paul Christoff
Chief Financial Officer

February 15, 2002

Actuary's Report

To the Shareholders of Coachman Insurance Company

I have valued the policy liabilities of Coachman Insurance Company for its statement of financial position at December 31, 2001 and their change in the statement of income for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion the amount of policy liabilities makes appropriate provision for all policyholder obligations, and the financial statements fairly present the results of the valuation.

Toronto, Ontario
February 15, 2002

Richard Gauthier
Fellow, Canadian Institute of Actuaries

Auditors' Report

To the Shareholders of Coachman Insurance Company

We have examined the statement of financial position of Coachman Insurance Company as at December 31, 2001 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Regina, Canada
February 15, 2002

Statement of Financial Position

December 31, 2001
(thousands of $)

	2001	2000
Assets		
Accounts receivable (note 3)	$ 11,000	$ 15,229
Due from Facility Association (note 13)	409	435
Prepaid expenses	394	34
Deferred policy acquisition costs	1,748	1,574
Capital assets (note 5)	197	239
Future income taxes	2,950	2,797
Income tax recoverable	-	1,136
Unpaid claims recoverable from reinsurers (notes 6 & 7)	3,702	6,253
Investments (note 4)	43,684	40,882
	$ 64,084	$ 68,579
Liabilities and Shareholder's Equity		
Liabilities:		
Cheques issued in excess of bank balance	$ 1,288	$ 315
Accounts payable	934	887
Amounts due to reinsurers (note 6)	-	305
Other taxes payable	206	750
Provision for unpaid claims (notes 7 & 13)	33,477	39,054
Unearned premiums (note 13)	12,963	15,472
	48,868	56,783
Shareholder's equity:		
Capital stock (note 10)	1,000	1,000
Contributed surplus (note 10)	13,500	9,500
Retained earnings	716	1,296
	15,216	11,796
	$ 64,084	$ 68,579

Commitments (note 14)

See accompanying notes to financial statements.

Statement of Operations and Retained Earnings

Year ended December 31, 2001
(thousands of $)

	2001	2000
Premiums written	$ 25,627	$ 34,090
Premiums earned (note 6)	26,112	30,934
Claims incurred (note 6)	23,369	28,299
Commissions	2,779	6,088
Administrative expenses	3,176	2,842
Premium taxes	793	1,023
Facility Association participation (note 13)	85	68
	30,202	38,320
Underwriting loss	(4,090)	(7,386)
Investment earnings (note 8)	3,357	2,390
Loss before income taxes	(733)	(4,996)
Income taxes (recovery) (note 9):		
Current	-	184
Future	(153)	(2,263)
	(153)	(2,079)
Net Loss	(580)	(2,917)
Retained earnings, beginning of year	1,296	4,213
Retained earnings, end of year	$ 716	$ 1,296

See accompanying notes to financial statements.

Statement of Cash Flows

Year ended December 31, 2001
(thousands of $)

	2001	2000
Cash provided by (used in):		
Operating activities:		
Loss for the year	$ (580)	$ (2,917)
Items not involving cash:		
Write-down of investments	199	-
(Gain) loss on disposal of investments	(778)	131
Amortization of bond discount	47	(13)
Future income taxes	(153)	(2,263)
Amortization of capital assets	93	72
	(1,172)	(4,990)
Change in non-cash operating items:		
Net unpaid claims and adjustment expenses	(3,026)	6,015
Unearned premiums	(2,509)	484
Other current assets and liabilities	4,054	68
	(2,653)	1,577
Financing activities:		
Contributed surplus	4,000	3,000
	4,000	3,000
Investing activities:		
Purchase of investments	(178,425)	(56,640)
Proceeds on disposal of investments	176,156	49,792
Purchase of capital assets	(51)	(79)
	(2,320)	(6,927)
(Decrease) in cheques issued in excess of bank balance	(973)	(2,350)
Cash (cheques issued in excess of bank balance), beginning of year	(315)	2,035
Cheques issued in excess of bank balance, end of year	$ (1,288)	$ (315)
Supplementary cash flow information:		
Income taxes received	$ 1,164	$ (90)

See accompanying notes to financial statements.

Notes to Financial Statements

Year ended December 31, 2001

1. STATUS OF THE CORPORATION

Coachman Insurance Company (the Corporation) was incorporated under the laws of Ontario on June 12, 1979 and is engaged in the insurance of personal and commercial automobile risks.

On July 1, 2001, SGI CANADA Insurance Services Ltd. (SCISL) purchased 100% of the issued and outstanding shares of the Corporation.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The following are considered to be significant:

Deferred policy acquisition costs
Premium taxes, commissions and certain underwriting and policy issuance costs are charged to expenses over the term of the insurance policies to which they relate. The method followed in determining the deferred policy acquisition costs limits the amount of the deferral to the amount recoverable from unearned premiums after giving consideration to investment income, as well as claim and adjustment expenses expected to be incurred as the premiums are earned.

Investments
Bonds are recorded at amortized cost. Treasury bills, common shares and preferred shares are recorded at cost. Investments are written down when there is a decline in value that is other than temporary. Dividends on common and preferred shares are recognized as income on their record dates. Gains and losses on the disposal of investments are taken into income on the date of settlement.

Provision for unpaid claims
The provision for unpaid claims represents an estimate of the total cost of claims to the year-end date. Included in the estimate are reported claims, claims incurred but not reported and an estimate of adjustment expenses to be incurred on these claims. The provision is calculated without discounting. The estimates are necessarily subject to uncertainty and are selected from a range of possible outcomes. During the life of the claim, adjustments to the estimates are made as additional information becomes available. The change in outstanding losses plus paid losses is reported as claims incurred in the current period.

Premiums
Premiums written are recognized as revenue evenly over the terms of the related policies. Unearned premiums represent the portion of premiums written relating to the unexpired terms of policies in force.

Reinsurance ceded
Reinsurance premiums ceded and reinsurance recoveries on losses incurred are recorded as a reduction of the respective income and expense accounts.

Unpaid claims recoverable from reinsurers are estimated in a manner consistent with the method used for determining the provision for unpaid claims.

Capital assets
Capital assets are recorded at cost less accumulated amortization. Amortization is recorded on a straight-line basis, commencing in the year in which the asset is placed in service, over the estimated useful lives of the assets as follows:

Computer hardware, system costs and other equipment	20 – 33$^1/_3$%

Income taxes
The Corporation uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement's recorded amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

3. ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following:

	2001	2000
	(THOUSANDS OF $)	
Due from brokers	$ 100	$ -
Financed premiums receivable	9,745	10,756
Accrued investment income	339	178
Due from reinsurers	111	169
Other	705	4,126
Total accounts receivable	$ 11,000	$ 15,229

4. INVESTMENTS

The carrying value and fair value of the Corporation's investments are as follows:

	2001		2000	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(THOUSANDS OF $)			
Treasury bills	$ 2,861	$ 2,861	$ 2,488	$ 2,488
Bonds and debentures	23,733	23,752	12,869	13,208
Common shares	8,629	9,612	5,928	5,140
Preferred shares	8,461	8,475	15,929	15,972
Other	-	-	3,668	4,019
Total investments	$ 43,684	$ 44,700	$ 40,882	$ 40,827

Details of significant terms and conditions, exposures to interest rate and credit risks of investments are as follows:

Treasury bills:

Treasury bills, which comprise treasury bills and commercial paper, have an average effective interest rate 2.75% and an average remaining term to maturity of 81 days.

Bonds and debentures:

The carrying value and average effective interest rates are shown below by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties. The carrying values are essentially the same as the principal values and therefore the average effective rates are not materially different from the coupon rates. Interest is generally payable on a semi-annual basis.

	2001		2000	
Term to Maturity (years)	Carrying Value	Average Effective Rates	Carrying Value	Average Effective Rates
	(THOUSANDS OF $)			
Government of Canada:				
After one through five	$ 4,689	5.19%	$ 2,887	5.39%
After five	6,506	5.72%	-	-
Canadian provincial & municipal:				
After one through five	2,489	5.70%	1,508	6.22%
After five	3,811	6.03%	6,925	6.07%
Canadian corporate				
One or less	350	8.00%	1,549	8.58%
After one through five	2,816	6.06%	-	-
After five	3,072	6.55%	-	-
Total bonds & debentures	$ 23,733	5.84%	$ 12,869	6.24%

Investments with a carrying value of $50,000 are on deposit with regulatory authorities as at December 31, 2001. Investments with a carrying value of $650,000 are on deposit with a bank for a loan facility with respect to overdraft protection.

Common shares:

Common shares have no fixed maturity dates and are generally not exposed to interest rate risk. Dividends are generally declared on an annual basis. The average effective rate is 2.18% (2000 – 1.82%)

Preferred shares:

Preferred shares have no fixed maturity dates and are generally exposed to interest rate risk. Dividends on preferred shares are generally declared on a quarterly basis. The average effective rate is 5.73% (2000 – 5.66%).

5. CAPITAL ASSETS

The components of the Corporation's investment in capital assets, as well as related amortization, are as follows:

	2001			2000
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
	(THOUSANDS OF $)			
Computer hardware, system costs and other equipment	$ 683	$ 486	$ 197	$ 239

Amortization of $93,000 (2000 - $72,000) was expensed during the year.

6. REINSURANCE CEDED

The Corporation has reinsurance treaties with third-party reinsurers which limit the liability of the Corporation to a maximum amount on any one loss to $250,000. Reinsurance is placed on an excess of loss basis.

The following table sets out the amount by which reinsurance ceded has reduced the premiums earned and claims incurred:

	2001	2000
	(THOUSANDS OF $)	
Premiums earned	$ 2,040	$ 2,702
Claims incurred	(1,012)	347

7. PROVISION FOR UNPAID CLAIMS

(i) Nature and variability of unpaid claims:

The establishment of the provision for unpaid claims is based on known facts and interpretation of circumstances and is therefore a complex process influenced by a large variety of factors. Measurement of the provision is uncertain due to claims that are not reported to the Corporation at the year-end date and therefore estimates are made as to the value of these claims. As well, uncertainty exists for reported claims that have not been settled, as all the necessary information may not be available at the statement of financial position date.

Factors used to estimate the provision include: the Corporation's experience with similar cases, historical trends involving claim payments, the characteristics of the class of business, claim severity and claim frequency, the effect of inflation on future claim settlement costs, court decisions and economic conditions. Time is also a critical factor in determining the provision, since the longer it takes to settle and pay a claim, the more variable the ultimate settlement amount will be. Accordingly, short-tail claims such as physical damage or collision claims tend to be more reasonably predictable than long-tail claims such as liability claims.

As a result, the establishment of the provision for unpaid claims relies on a number of factors and on the judgment and opinions of a large number of individuals, which necessarily involves risk that the actual results may differ materially from the estimates.

Changes in the estimates for the provision for unpaid claims in 2001 and 2000 are as follows:

	2001	2000
	(THOUSANDS OF $)	
Net unpaid claims - beginning of year	$ 32,801	$ 26,786
Provision for self-insured retention	(3,675)	(3,105)
Payments made during the year relating to prior year claims	10,035	8,009
(Excess) Deficiency relating to prior year estimated unpaid claims	(547)	(765)
Net unpaid claims for claims of prior years	18,544	14,907
Provision for claims occurring in the current year	10,526	14,219
Provision for self-insured retention	705	3,675
Net unpaid claims - end of year	$ 29,775	$ 32,801

(ii) Type of unpaid claims:

The provision for unpaid claims is summarized by type of claim as follows:

	2001			2000		
	Gross	Reinsurance Recoverable	Net	Gross	Reinsurance Recoverable	Net
	(THOUSANDS OF $)					
Automobile						
Injury accident benefits	$ 4,069	$ 2,369	$ 11,700	$ 13,393	$ 4,154	$ 9,239
Injury liability	17,192	840	16,352	20,153	1,329	18,824
Damage	1,072	54	1,018	1,168	105	1,063
Fidelity	339	339	-	565	565	-
Surety	100	100	-	100	100	-
Self-insured retention	705	-	705	3,675	-	3,675
Total	$ 33,477	$ 3,702	$ 29,775	$ 39,054	$ 6,253	$ 32,801

(iii) Self insured retention:

The provision for self-insured retention represents unpaid claim reserves associated with insurance policies where the insured is retaining the insurance risk. The Corporation holds security in the form of deposits in custodial accounts to guarantee the reserves associated with the self-insured retention policies.

(iv) Structured settlements:

During the normal course of settling insurance claims, the Corporation has purchased an annuity from a life insurance company to make fixed payments to claimants of the Corporation. There are no rights under the non-commutable, non-assignable, non-transferable contract that would provide for any current or future benefit to the Corporation. The Corporation remains liable only in the event that the life insurance company fails to make payments to the Corporation's claimants. As at Dec. 31, 2001, no information has come to the Corporation's attention that would suggest any weakness or failure in the life insurance company from which it has purchased the annuity. Consequently, no provision for the credit risk is required. The net present value of these expected payments as of the statement of financial position date totals $831,000 (2000 - $880,000).

8. INVESTMENT EARNINGS

The components of investment earnings are as follows:

	2001	2000
	(THOUSANDS OF $)	
Interest and dividends	$ 2,240	$ 2,039
Realized gain (loss) on sale of investments	778	(131)
Income from partnerships	12	-
Income from premium financing	663	683
Investment expenses	(137)	(201)
Investment write down	(199)	-
Total investment earnings	$ 3,357	$ 2,390

9. INCOME TAXES

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates of 40.36% (2000 – 44.1%) to income before income taxes. The reasons for the differences are as follows:

	2001	2000
	(THOUSANDS OF $)	
Computed tax expense	$ (296)	$ (2,203)
Increase (decrease) resulting from:		
Adjustment to future tax assets and liabilities for enacted changes in tax laws and rates	270	437
Other	(127)	(313)
Total income tax expense	$ (153)	$ (2,079)

10. SHARE CAPITAL AND CONTRIBUTED SURPLUS

The Corporation is authorized to issue 10,000 common shares. At the end of 2001 there are 10,000 (2000 – 10,000) common shares issued. On July 26, 2001, the Corporation's parent, SCISL, contributed $4,000,000 (2000 - $3,000,000 from previous parent) in cash, which is reflected as a contributed surplus on the statement of financial position.

11. FAIR VALUE

The following method and assumptions were used to estimate the fair value of each class of financial instrument:

(i) For the following financial instruments the carrying amounts approximate fair value due to the immediate or short-term nature of these financial instruments:

(a) accounts receivable
(b) cheques issued in excess of bank balance
(c) accounts payable
(d) other taxes payable

(ii) For bonds and debentures, common and preferred shares, the fair values are considered to approximate quoted market values on recognized stock exchanges based on the latest bid prices.

(iii) Provision for unpaid claims and unpaid claims recoverable from reinsurers.

The fair value of the provision for unpaid claims and unpaid claims recoverable from reinsurers has been omitted because it is not practicable to determine fair value with sufficient reliability (note 7).

12. RELATED PARTY TRANSACTIONS

From the period between Jan. 1, 2001 and June 30, 2001, the Corporation's previous parent provided management services to the Corporation. Management fees charged to the Corporation were $46,000 (2000 – $137,000). Commonly controlled corporations provided investment management services and information technology services to the Corporation. The fees charged to the Corporation for investment management services were $104,000 (2000 - $188,000) and for information technology services were $78,000 (2000 - $250,000).

Other related party transactions are disclosed separately in the notes to the financial statements.

13. FACILITY ASSOCIATION

The Corporation is a participant in various risk sharing pools whereby most companies in the industry share resources to provide insurance for high risks. Facility Association funds are deposited with the pool and recorded as assets due in the amount of $409,000 (2000 - $435,000). The Corporation currently carries related liabilities for unearned premiums of $80,000 (2000 - $64,000) and unpaid claim expenses of $1,012,000 (2000 - $992,000).

14. COMMITMENTS

The Corporation has a lease with one of its directors for its office premises expiring Dec. 31, 2008 at an annual rent of approximately $180,000.